



3 Undervalued TSX Stocks Worth a Buy Right Now

Description

TSX stocks have sure had a rough ride recently. This is due to rising inflation and interest rates, and a general squeamishness that has taken hold. But, of course, there is a silver lining to a falling market – undervalued bargains.

Without further ado, here are three undervalued TSX stocks that are worth considering right now.

Pason stock: TSX stocks like this energy services stock are a diamond in the rough

Pason Systems Inc. ([TSX:PSI](#)) is a \$1.3 billion oil services company and the leading provider of specialized data management services for drilling rigs. It's also an undervalued TSX stock that's beating expectations and generating exceptionally strong results as the oil and gas industry continues to boom. For example, in its latest quarter, Pason reported a better-than-expected 60% increase in revenue, 163% increase in EPS, and 60% increase in its dividend.

Clearly, returns are high and trends are strong. For example, Pason's return on equity (ROE) is 25%, profit margin 26%, and dividend yield 3% and rising. Pason stock trades at 13 times this year's expected earnings and 11 times 2023's expected earnings. EPS is expected to rise 200% this year, and 19% in 2023.

Pason maintains a healthy balance sheet and continues to invest in renewable energy opportunities. These investments strengthen its long-term growth profile and add another layer of profitable earnings to Pason stock.

An undervalued natural gas play

Peyto Exploration and Development Corp. ([TSX:PEY](#)) is a Canadian [natural gas producer](#) that operates in a very prolific basin – the Alberta Deep basin. This basin is characterized by higher

recoveries, lower risk, and more production predictability. It is these characteristics that drive Peyto's strong results.

While Peyto's stock hasn't been hit in the recent weakness in TSX stocks (it's up 40% year to date), we can easily argue that the stock should and would be much higher in a better macro environment. For example, in 2014, Peyto stock was trading north of \$40. At that time, natural gas was trading at an average price of \$4.39. This compares to the average natural gas price of \$6.60 so far in 2022.

Furthermore, the North American natural gas market is far healthier today than it was back then. For example, it's been opened up to global markets, as liquified natural gas (LNG) exports are finally gaining steam and volumes. This is an extra demand boost that has astronomically increased the value of North American natural gas.

So, with a fast-growing dividend (up 567% since 2020) and trading at a mere 3.8 times cash flow, Peyto stock is worth buying right now.

An undervalued TSX stock generating explosive returns

Spin Master Corp. ([TSX:TOY](#)) is a global children's entertainment company. It operates under three segments – toys, entertainment, and digital games. The company has a strong and innovative history. The product line has greatly benefitted from a collaborative model providing access to a global network of inventors. These innovative inventors have produced some of the most popular toys in recent years.

And Spin Master's results have reflected this. In the last five years, revenue increased 77% to \$2 billion in 2021. Also, earnings grew 23% in this time period. Importantly, this growth has been accompanied by strong returns. Over the same period, Spin Master's ROE is 27%, with [a profit margin](#) of 14% and little debt.

Interestingly, Spin Master's stock is very cheap and undervalued. I can only point to the discretionary nature of its products to explain this. In fact, the company's latest quarter highlights this risk – the company posted a decline in adjusted net income. Clearly, in a difficult economic environment, consumers can easily sacrifice entertainment purchases.

However, the stock's valuation reflects this risk, in my view, as it's trading at a mere 9 times earnings and 7 times cash flow. This valuation is despite the fact that earnings have consistently beat expectations and Spin Master continues to grow via acquisitions.

CATEGORY

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1. TSX:PEY (Peyto Exploration & Development Corp)
2. TSX:PSI (Pason Systems Inc.)
3. TSX:TOY (Spin Master)

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Author

karenjennifer

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